

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year ended 30 June 2004, turnover and profit attributable to shareholders of the Group amounted to approximately RMB1,861,758,000 and RMB996,754,000, representing an increase of 25.3% and 37.5% as compared with last year.

Turnover for the year increased 25.3% from RMB1,485,307,000 of last year. Such increase was mainly due to the reinforced direct sales to overseas customers and the sustained development of sales network targeting at cities with high purchasing power. In respect of land area, the weighted average of farmland areas for the year increased from 97,678 mu last year to 111,835 mu, representing an increase of 14.5%. Besides, after prolonged improvement work on previously used land, the capacity was further enhanced, leading to simultaneous increases in production and sales volumes. As at 30 June 2004, the aggregate usable farmland of the Group (excluding citrus farms owned by associates) was 181,027 mu, representing an increase of 16.6% from 155,315 mu last year.


Sales of crops for the year accounted for 91.1% of total turnover, while sales of livestock and supermarkets chain operation accounted for 2.2% and 6.7% respectively. Save for supermarkets chain operation, there had not been any material change in the sales mix by product.

Domestic sales of crops represented 68.8% of the total turnover for the year while export sales of crops (by means of direct sales to overseas customers and sales locally by delivery to the PRC trading companies) took up the remaining 31.2%. There had not been any material change in the sales mix by market.

The gross profit margin in the sales of crops being the Group's principal business remains at about 70%. The overall gross profit margin was 66% as compared to 67% of last year. Decrease in the overall gross profit margin was attributable to the change in sales mix arising from the supermarkets chain operation (which normally has a much lower margin than that of the sales of crops).

Selling and distribution expenses and general and administrative expenses for the year represented 9.9% and 5.5% of turnover respectively, as compared to 9.4% and 6.0% of last year. The percentage change in the selling and distribution expenses was immaterial. Decrease in the general and administrative expenses was attributable to the serious financial management and the attitude of treasuring the Group's financial resources by the management of Chaoda.

The pre-tax profit margin for the year was 48.6%, representing a decrease of 0.3% as compared to 48.9% of last year. Net profit margin was 53.5%, as compared to 48.8% of last year. The increase in net profit margin was due to exceptional income of tax provided in prior years being written back during the year.



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## **CHARGE ON ASSET**

As at 30 June 2004, a corporate guarantee executed by a subsidiary was pledged by the Group as the security for short-term loans. A property of the subsidiary was also pledged as security for a banking facility. The Company has entered into an agreement relating to a loan facility of up to US\$21,000,000 (RMB173,431,440) on 30 April 2004 with a syndicate of banks. The facility was secured by the shares of certain subsidiaries and will be repayable within 36 months after the drawdown date.

## **REMUNERATION POLICIES**

### **Remuneration Policy for Employees**

As at 30 June 2004, the Group employed 11,700 employees, of which 9,596 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. Other employee benefits mainly include pension arrangements, insurance, education subsidies and training programmes.

### **Remuneration policy for Executive Directors**

The executive directors' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. The basic salaries will be reviewed by the Board from time to time with not more than 20% increment per annum.

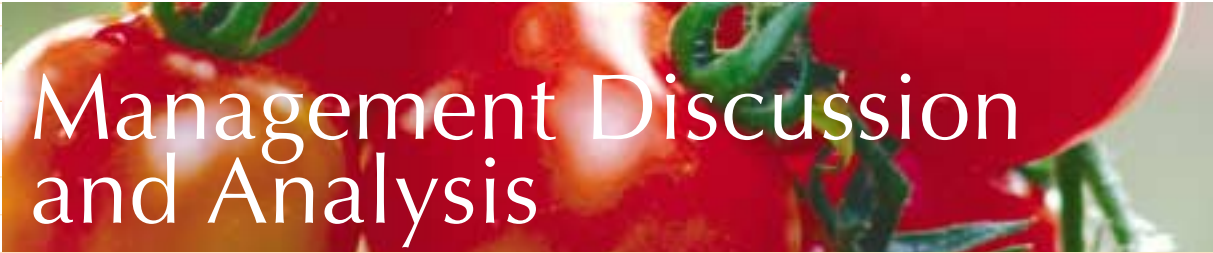
A share option scheme ("Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. As at 30 June 2004, options in respect of 159,717,500 shares (after adjustment) were granted to the relevant participants under the Scheme.

The Group does not have, has never had, any long-term incentive schemes.

### **Remuneration Policy for Non-Executive Directors**

The remuneration, comprising directors' fee, of non-executive directors is determined by the Board from time to time by reference to their duties and responsibilities with the Company and the market rate. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties.

Further details of remuneration of executive directors and non-executive directors are specified in the section headed "Directors' Remuneration" disclosed in the Directors' Report.



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## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2004, the Group had bank and cash balances amounting to RMB944,479,000, of which RMB393,640,000 were denominated in Renminbi, while the remaining RMB550,839,000 were denominated in foreign currencies, predominately Hong Kong dollars and United States dollars. Since the exchange rate fluctuations between Hong Kong dollars or United States dollars and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out.

As at 30 June 2004, the Group's gearing ratio was 0.8%, which is calculated on the basis of bank loans over total assets. And the Group's current ratio was 13.5 times, reflecting sufficient financial resources.

As at 30 June 2004, the Group had in respect of the purchase of fixed assets, research and development expenditure and the purchase of land use rights, outstanding capital commitments amounting to RMB430,734,000, of which commitments of RMB216,351,000 were contracted but not provided for, while the remaining commitments of RMB214,383,000 had been authorised but not contracted for. As at 30 June 2004, the Group did not have any material contingent liabilities.

## **USE OF SHARE ISSUE PROCEEDS**

As at 1 July 2003, the balance of unused share issue proceeds amounted to approximately RMB472,392,000. As at 30 June 2004, the Group had utilised all the balance of RMB472,392,000 for the construction of irrigation systems and infrastructure facilities in its production bases.

On 15 January 2004, the Company placed 280,000,000 shares at HK\$2.50 per share. Approximately HK\$683,000,000 (approximately equivalent to RMB723,160,400) (net of all costs and expenses incurred in the placing and subscription) was raised. As at 30 June 2004, the Group had used approximately HK\$50,000,000 (approximately equivalent to RMB52,940,000) of the net proceeds for land leasing costs in connection with the expansion of the Group's production bases.

As at 30 June 2004, the net proceeds from the above-mentioned share issue of approximately HK\$633,000,000 (approximately equivalent to RMB670,220,400) which have not yet been utilised during the year will continue to be used for the construction of irrigation systems and infrastructure facilities at the Group's production bases and for general working capital. The above-mentioned unused net proceeds are kept in banks as short-term deposits.